

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 USNATO 0169

E.O. 11652: GDS, 12/31/79

TAGS: PFOR, ENRG, NATO

SUBJECT: ECONOMIC COMMITTEE: REPORT ON WORLD OIL CRISIS AND
THE ALLIANCE

FOLLOWING IS TEXT OF UK SUGGESTED AMENDMENTS TO
AC/127-WP/373 REFERRED TO SEPTTEL:

BEGIN TEXT.

UNITED KINGDOM SUGGESTED AMENDMENTS TO AC/127-WP/373; THE WORLD
OIL CRISIS AND THE ALLIANCE

PARAGRAPH 2 THE DEMAND FORECASTS GIVEN ARE ALL PRE-CRISIS.
THE EXISTING FIGURES SHOULD BE EXPRESSED IN THE PAST TENSE.
ALTERNATIVELY, A CAVEAT SHOULD BE INSERTED TO THE EFFECT THAT
GROWTH IS NOW EXPECTED TO SLOW DOWN CONSIDERABLY. THE LAST
SENTENCE OF PARAGRAPH 2 PERHAPS OVER-STATES THE FATE OF THE OIL
COMPANIES. THERE IS UNDOUBTEDLY A CHANGE IN THE RELATIONSHIP
BUT THEIR ROLE AS INTERMEDIARIES IS NOT YET ENTIRELY
ELIMINATED. THE THOUGHT IS BETTER EXPRESSED IN THE FIRST SENTENCE
OF PARAGRAPH 3 AND IN WHAT FOLLOWS.

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PARAGRAPH 3 NOT ALL ARAB OIL PRODUCERS ARE APPLYING
DESTINATION CONTROLS. LINE 9 SHOULD THEREFORE BE AMENDED TO
READ "AND IN THE CASE OF SOME ARAB COUNTRIES, AT ANY RATE, HAVE
TO UNDERGO....".

PARAGRAPH 6 THE PAPER HERE AND IN OTHER PLACES WHERE PRICES ARE DISCUSSED NEEDS TO BE BROUGHT UP TO DATE TO TAKE ACCOUNT OF A FURTHER DOUBLING OF POSTED PRICES. THE WORDS "LITTLE-USED OR DISREGARDED" IN LINE 3 SHOULD BE DELETED.

PARAGRAPH 7, LINE 4 THE CONCEPT OF MARKET PRICES IS DESCRIBED AS MISLEADING IN PARAGRAPH 10 AND SHOULD THEREFORE ONLY BE USED WITH SOME QUALIFICATION IN THIS PASSAGE.

PARAGRAPH 9, LINE 5 "UNDOUBTEDLY" SHOULD READ "PROBABLY".

PARAGRAPH 10, LINE 15 "DECIDE" SHOULD READ "TRY".

PARAGRAPHS 12-17 NEED TO BE UPDATED TO TAKE ACCOUNT OF THE INCREASED PRICES.

PARAGRAPH 14, LINE 7 SHOULD NOT "VALUE" READ "VOLUME"?

PARAGRAPH 19 THIS IS OUT OF DATE NOW THAT THE CUT IS 15 PERCENT OF SEPTEMBER PRODUCTION LEVELS. FURTHERMORE, THE DESCRIPTION OF THE CUTS AS APPLIES TO INDIVIDUAL COUNTRIES IS MISLEADING IN THAT IT DESCRIBES THE THEORETICAL SITUATION AND NOT THE REALITIES WHICH FOLLOW FROM THE OIL COMPANIES EQUAL MISERY POLICY. THESE FIGURES SHOULD BE CUT OUT ENTIRELY AND REPLACED BY THE THOUGHT THAT TOTAL AVAILABLE OIL FROM OPEC HAS BEEN CUT BY JUST UNDER 10 PERCENT, WHICH MEANS THAT THE CUT IN SUPPLIES FOR ALL CONSUMERS WILL BROADLY BE OF THAT ORDER, JUST AS DELIVERIES WERE DOWN BY THE APPROXIMATE 16 PERCENT IN DECEMBER AND NOT THE 25 PERCENT WHICH THE ARAB EMBARGOES ALONE WOULD IMPLY.

PARAGRAPH 26 THE STATEMENT OF 25 DECEMBER ALSO INCLUDED A DECLARATION THAT ARAB OIL COULD TRANSIT HOLLAND TO BELGIUM AFTER SUFFICIENT GUARANTEES HAD BEEN RECEIVED THAT NONE OF THIS OIL WOULD REMAIN IN HOLLAND.

PARAGRAPH 30 THE DEMAND FORECASTS GIVEN ARE THOSE BASED ON THE CONFIDENTIAL

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OLD OIL SITUATION AND AS WITH PARAGRAPH 2 THIS SHOULD BE MADE CLEAR.

PARAGRAPH 31 LINE 4 AFTER "WILL" INSERT "PROBABLY".

PARAGRAPH 35 IN A STATEMENT MADE ON 20 DECEMBER THE IRAQI OIL MINISTER ANNOUNCED THAT IRAQ INTENDED TO INCREASE PRODUCTION TO 3.5 M BARRELS PER DAY BY 1975. THE AVERAGE PRODUCTION RATE IN 1973 WAS 2.1 M BARRELS PER DAY WHICH REPRESENTED A 43 PERCENT INCREASE ON 1972.

"PARAGRAPH 38,

PARAGRAPH 38, LINE 2 "FOR PRIMARY ENERGY USED" SHOULD FOLLOW "OIL",

IF THIS IS WHAT IS MEANT. THE MEANING SHOULD IN ANY CASE BE MADE CLEARER.

PARAGRAPH 40 THE FOOTNOTE HERE IS PERHAPS MISLEADING. THE TAR SANDS ARE IN CANADA AND IT IS NOT YET CERTAIN THAT THE CANADIANS ARE WILLING TO ALLOW US EXPLOITATION IN THE MANNER SUGGESTED. WE SUGGEST DELETION OF THE FOOTNOTE, OR THE SUBSTITUTION OF OIL SHALE FOR TAR SANDS. PRESIDENT NIXON'S DECLARATION OF AMERICAN INDEPENDENCE FROM IMPORTED ENERGY SOURCES BY 1980 IS SIGNIFICANT AND SHOULD BE MENTIONED AT THIS POINT.

SECTION D, PARAGRAPHS 41-52 IN GENERAL THIS PASSAGE SEEMS A BIT CONFUSED. ON THE ONE HAND IT WOULD SEEM TO OVER-STATE THAT CASE FOR THE EFFECTS OF THE CURRENT OIL EMBARGO AND PRODUCTION CUTS, BUT ON THE OTHER IT UNDER-STATES THE CASE IN TERMS OF THE EFFECT OF THE INCREASED PRICES ON ALLIANCE ECONOMIES. IN THE LONGER TERM, THE PRICE PROBLEM IS MUCH MORE IMPORTANT THAN THE CURRENT SUPPLY SHORT-FALLS. THE SECRETARIAT MAY WISH TO LOOK AT THIS WHOLE PASSAGE AGAIN IN THE LIGHT OF SUBSEQUENT DEVELOPMENTS. SOME COMMENTS ON PARTICULAR PARAGRAPHS FOLLOW.

PARAGRAPH 42 THIS COULD BE EXPANDED TO MENTION THE DANGERS OF DISRUPTION TO TRADE GENERALLY, PARTICULARLY SUPPLIES OF FOOD AND OTHER RAW MATERIALS.

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PARAGRAPH 45, LINE 7 "HYDRAULIC" SHOULD PRESUMABLY READ "HYDROELECTRIC".

PARAGRAPH 48 THE 3 1/2 RATE OF GROWTH QUOTED FOR THE UNITED KINGDOM MAY NOT BE QUITE ACCURATE, PARTICULARLY IN VIEW OF OUR OTHER ECONOMIC PROBLEMS.

PARAGRAPH 52 THE CONCLUDING SENTENCE MAY POSSIBLY BE TOO PESSIMISTIC.

PARAGRAPH 71 AT THE NOVEMBER MEETING OF THE OAU IN ADDIS ABABA THE CREATION OF A SPECIAL ARAB BANK TO CONTRIBUTE TO THE ECONOMIC AND SOCIAL DEVELOPMENT OF AFRICAN COUNTRIES WAS ANNOUNCED. IT IS TO HAVE AN INITIAL CAPITAL OF 50M POUND STERLING WHICH WILL BE LARGELY CONTRIBUTED BY THE OIL PRODUCERS.

PART III DR KISSINGER'S RECENT PROPOSALS ON THIS QUESTION CAME TOO LATE FOR INCLUSION; BUT THEY SHOULD BE CONSIDERED IN THIS PART OF THE PAPER.

PART IV THIS SEEMS GENERALLY TOO RELAXED ABOUT THE RUSSIAN ATTITUDE. THEIR PROPAGANDA SERVICES HAVE BEEN ADVOCATING THE USE OF THE OIL WEAPON FOR SOME TIME. ON THE OTHER HAND THERE IS CONFIDENTIAL

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PROBABLY LITTLE SCOPE FOR THEM TO MEDDLE AT THE PRESENT TIME. ON BALANCE THE SOVIET UNION STANDS TO GAIN BY STICKING TO ITS PRESENT POLICY OF LIMITED INVOLVEMENT IN THE ECONOMICS OF MIDDLE EAST OIL. SPECIFIC COMMENTS ON TWO PARAGRAPHS FOLLOW.

PARAGRAPH 90, LAST SENTENCE THOUGH 1973 DELIVERIES TO FRANCE AND FRG HAVE FALLEN SHORT OF CONTRACTED AMOUNTS, IT SHOULD BE POINTED OUT THAT LATE DELIVERIES AND QUANTITIES BELOW CONTRACT HAVE BEEN TYPICAL OF SOVIET DELIVERIES. IT IS THEREFORE DIFFICULT TO SAY WHETHER THE RECENT SUPPLY PATTERN IS DUE TO PRODUCTION/TRANSPORT DIFFICULTIES OR TO A POLICY CHANGE FOLLOWING THE MIDDLE EAST WAR.

PARAGRAPH 91, THIRD SENTENCE THE USSR WITHDREW FROM FURTHER PROSPECTING IN EGYPT AT THE END OF JULY, PRESUMABLY AT THE END OF THE CONTRACT.

/PARAGRAPHS 93-95

PARAGRAPHS 93-95 THIS IS NOT HOW THE UNITED KINGDOM VIEWS THE POLITICAL SITUATION RESULTING FROM THE ACTIONS OF THE ARAB STATES. PARAGRAPH 95 IS OF PARTICULAR CONCERN. IT IGNORES THE FACT THAT THE EEC HAS ESTABLISHED A CONSIDERABLE MEASURE OF SOLIDARITY ON THE POLITICAL APPROACH TO THE ARAB STATES AND GIVES THE IMPRESSION THAT SUCH SOLIDARITY AS DOES EXIST IS LARGELY A MATTER OF ASSISTING THE NETHERLANDS. LEAVING ASIDE THE POLITICAL APPROACH, SOLIDARITY IS REQUIRED IN THE WIDEST SENSE OF COPING WITH THE ECONOMIC CONSEQUENCES OF THE OIL SITUATION; THE EUROPEAN SUMMIT IN COPENHAGEN DID IN FACT AGREE ON ACTION TO THIS END. IN THE VIEW OF THE UNITED KINGDOM, OUTSIDE OF THE EEC THE OECD IS THE APPROPRIATE BODY TO DEAL WITH THESE MATTERS. IN PARENTHESIS IT SHOULD BE POINTED OUT THAT THE MENTION OF THE UNITED KINGDOM'S OBSERVANCE OF ARTICLE 34 OF THE TREATY OF ROME IS SLIGHTLY INACCURATE. LIKE ALL OTHER MEMBERS OF THE

COMMUNITY THE UNITED KINGDOM HAS A SPECIFIC LICENSING SYSTEM FOR OIL WHICH APPLIES TO TRADE BOTH WITHIN AND WITHOUT THE EEC. IN THE CASE OF INTRA-COMMUNITY TRADE, LICENCES ARE GRANTED VIRTUALLY AUTOMATICALLY. WE SUGGEST THEREFORE THAT THE WORDS FROM AND INCLUDING "AUTHORISING" IN LINE 10 OF PARAGRAPH 95 SHOULD BE DELETED AND REPLACED WITH "....ALLOWING TRADE TO CONTINUE TO THE NETHERLANDS AND OTHER MEMBERS OF THE COMMUNITY".
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PARAGRAPH 96 THIS RATHER OVERSTATES THE CASE REGARDING THE CSCE. THE LAST PART OF THE FIRST SENTENCE WOULD BE BETTER READ "WHERE IT HAS NOT YET PROVED POSSIBLE TO REACH AGREEMENT ON HOW TO DEAL WITH THE CONTRIBUTIONS MADE BY THE NON-PARTICIPATING MEDITERRANEAN STATES". THE LAST PART OF THE SECOND SENTENCE WOULD BETTER READ "COULD HAVE NEGATIVE IMPLICATIONS FOR THE TYPE OF ECONOMIC CO-OPERATION DISCUSSED IN COMMITTEE II".

PARAGRAPH 97 WE THINK THIS IS UNLIKELY GIVEN THE PRESENT POLICIES OF THE MAJOR ARAB OIL PRODUCERS.
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